



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA

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Refinements to and Further Development of the )  
Commission's Resource Adequacy Requirements )  
Program. )

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R.05-12-013

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON  
DRAFT DECISION ON REMAINING PHASE 1 ISSUES

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**Comments Of Southern California Edison Company (U 338-E) On Proposed Decision On  
Local Resource Adequacy Requirements**

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**COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON  
DRAFT DECISION ON REMAINING PHASE 1 ISSUES**

Pursuant to Rule 77.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), Southern California Edison Company ("SCE") hereby submits the following comments on the Draft Decision on Remaining Phase 1 Issues ("DD"). SCE generally supports the DD, which provides a thorough and reasoned analysis of the issues involved with a tradable Resource Adequacy ("RA") Capacity product and the remaining RA program implementation issues raised in Phase 1 of this proceeding. In these comments, SCE recommends certain modifications to the DD to authorize and streamline the process of contracting for RA Capacity products. SCE also requests that the DD allow for the consideration of three key issues in Phase 2 of this proceeding regarding the equitable administration of the RA program.

Specifically, SCE requests that:

- 1) The DD be modified to approve an amendment to the IOUs' Procurement Plans that allows for transactions of the tradable RA Capacity product adopted in the decision, at least through 2007, without requiring the IOUs to submit advice filings for approval;
- 2) The DD's "essential contracting elements" for RA Capacity product contracts be revised in the following manner:

- Remove provisions that would affirmatively preclude LSEs from separately contracting for Local RA credits and System RA credits from the same resource;
  - Strike the requirements that RA Capacity Product contracts must include an RA accounting rule (i.e. retention of the qualifying capacity (“QC”) value for a resource throughout the compliance year) and must provide for retention of the “benefit of the bargain” any time the Commission modifies the RA program or the CAISO modifies its tariffs;
  - Eliminate the 1 MW minimum size requirement for RA Capacity products;
  - Remove the statements that limit RA Capacity products to being written only for individual generating units, which directly conflict with the DD’s correct conclusion that unit substitution should be permitted; and
  - Strike the excess contract provisions relating to specific CAISO unit commitment and dispatch requirements, which are properly incorporated into the contracts by cross-referencing the CAISO Tariff itself;
- 3) The Commission expressly permit Phase 2 workshops in this proceeding on the issue of adjusting the planning reserve margin, in light of the policy adopted in the DD that allows only annual derates of QC;
  - 4) The DD be modified to allow parties to address, in Phase 2 of this proceeding, the RA program treatment of outage requests that are not acted upon by CAISO prior to an LSE’s RA compliance filing; and
  - 5) The Commission allow for Phase 2 workshops to evaluate the benefits of using loss factors to quantify transmission losses in the RA program as opposed to the flat 3% increase to load forecasts.

A final decision incorporating the above recommended modifications would provide the parties with a clear and reasonable set of criteria for tradable RA Capacity products and bring an appropriate conclusion to Phase 1 of this proceeding.

## I.

### RA CAPACITY PRODUCT

#### **A. The DD Should Approve An Amendment To The IOUs' Procurement Plans To Allow IOU Transactions In The RA Capacity Product Adopted In This Decision Without Requiring The IOUs To Submit Advice Filings That Must Then Be Approved By The Commission**

The DD adopts all the essential elements for a tradable RA Capacity product that counts for System and Local RA credit, and indicates that the Commission should not prescribe non-essential elements.<sup>1</sup> However, the DD states “[t]o the extent, if any, that the IOUs find it necessary to modify their Long Term Procurement Plans to comply with these requirements [for RA Capacity products], they should file advice letters proposing such modifications.”<sup>2</sup> SCE urges the Commission to remove this advice filing requirement, at least for 2007 procurement.

The IOUs' Procurement Plans include a list of authorized products. Although the Commission did approve an amendment to PG&E's Procurement Plan allowing PG&E to transact using its proposed version of an RA-countable capacity product, SCE understands this authority expires at the end of 2006. Accordingly, it appears to SCE that the IOUs presently have no express authority in their Procurement Plans to transact in tradable RA Capacity products for delivery in 2007 or beyond. Moreover, it would be a relatively straightforward matter for the Commission's final decision to incorporate a statement amending the IOUs' Procurement Plans to allow transactions in the products approved by the decision.

Although SCE and the other IOUs could submit advice letter filings requesting authorization to transact in the approved RA Capacity products, any transactions for 2007 or later delivery would be delayed until the Commission acts on the advice filings. As the Commission is well aware, approval of advice letters can take several months or longer. Since the date established in D.06-06-064 for the 2007 year-ahead demonstration for System and Local RA Capacity is October 31, 2006, there is not much time remaining for IOUs to transact from the date of a final decision (potentially July 20, 2006) until the showing date (approximately 3

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<sup>1</sup> DD at 24-33.

<sup>2</sup> *Id.*, at 28.

months). Therefore, SCE requests that the Commission act now in this decision to modify the IOU Procurement Plans and allow transactions in the newly-approved RA Capacity product. If the Commission wants the IOUs to file additional information relative to their use of the RA Capacity product (if any such information is needed), at a minimum the Commission could approve a limited amendment to the IOU Procurement Plans to allow transactions only through 2007.

Accordingly, SCE recommends that the DD be modified to strike the first full sentence on page 28 (quoted above) and to add the following Ordering Paragraph No. 4:

4. The IOU Procurement Plans are hereby modified to allow transactions in the RA Capacity products approved in this decision.

**B. The “Essential Features” of an RA Capacity Product Enumerated in the Draft Decision Require Some Modifications**

**1. LSEs Should Be Permitted To Purchase And/Or Sell the Local RA Capacity of a Unit Separately from the System RA Capacity of the Unit**

In Category 5 of the five categories of “essential contract elements” for RA Capacity products stated in the DD, parties are expressly prohibited from contracting separately for the Local and System RAR credits of a generating unit:

RAR Capacity Products that satisfy Local RAR for a particular LSE must also be reported by that same LSE to satisfy System RAR. There is to be no separation of system and local credit of units between LSEs for purposes of System and Local RAR compliance. Units may sell partial capacity to different LSEs, but cannot sell the same Local RA Capacity and System RA Capacity to different buyers.<sup>3</sup>

The DD provides no reasons for the prohibition on unbundling Local and System RA Capacity. SCE strongly urges the Commission not to foreclose parties from unbundling Local and System RA Capacity. There are several practical reasons for this. First, the

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<sup>3</sup> DD at 33 (Category 5, Item #1c).

Commission requires month-ahead showings for System RA Capacity, but only a single year-ahead showing for Local RA Capacity. Under these circumstances, it would be appropriate and desirable for LSEs to separately purchase and sell Local and System RA Capacity if certain conditions exist. Assume, for example, that an LSE has a surplus of Local RA Capacity in one or more local areas, and enough System RA Capacity for the annual showing (at least 90% of 115% of average-year peak load), but not enough for the monthly System RA showing for one or more months (less than 100% of 115% of average-year peak load for these months). A logical and efficient transaction approach would be for the LSE to merely sell its “long” Local RA Capacity prior to the year-ahead showing, and later purchase System RA Capacity for those months in which it is “short” System RA Capacity. However, if the prohibition of unbundling System and Local RA Capacity is not removed from the DD, this beneficial strategy cannot be followed.

Another consideration is that the Commission has established (by D.06-06-064) Local RA Capacity requirements for only one year, 2007, whereas the System RA Capacity requirements (100% of 115%) are likely to remain the same for several years into the future. Hence, it makes sense for LSEs to acquire (and generators to sell) a System RA Capacity product for a multi-year term to facilitate multi-year hedging (and revenue certainty). However, acquiring a multi-year Local RA Capacity product creates risk for an LSE insofar as the Local RA Capacity requirement could be reduced in future years due to transmission system upgrades or changes to the study criteria. Accordingly, it is reasonable to allow LSEs the flexibility to select and acquire what RA products they determine they need without forcing them to acquire products they don’t necessarily want due to bundling.

D.06-06-064 indicates that there are 27,564 MWs of QC that are located in nine local areas (the decision consolidates the number of local areas to four).<sup>4</sup> Therefore, a very high percentage of the total System RA Capacity that can be procured by LSEs will be, under the DD, bundled System and Local RA Capacity. Accordingly, when LSEs are seeking to balance their portfolios to eliminate “long” (surplus) or “short” (deficit) positions in System RA Capacity or Local RA Capacity for each of the four local areas, bundling of System and Local RA Capacity may require LSEs to sell an attribute they actually want, in order to eliminate an attribute they do

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<sup>4</sup> D.06-06-064 at 19.



not need. Alternatively, LSEs may receive offers for attributes they don't want bundled with the attribute they are seeking. It is likely that transactions to eliminate long or short positions in a particular attribute will result in the creation of long or short positions in other attributes. This will cause additional transactions to deal with the new long or short positions, which, in turn, may give rise to the need for further transactions to balance the portfolio, and so on. The end result would likely be higher costs to LSEs and the customers they serve.

SCE therefore recommends that the Commission strike Item #1c from Category 5 of the essential contract elements, to allow for the development and trading of Local and System RA Capacity products that LSEs, generators, and marketers will find useful in the near term. Consistent with the approach of unbundling the System RAR and Local RAR attributes, the SCE-led industry group<sup>5</sup> developing an RA countable capacity product is incorporating this concept into its draft commercial agreements.

**2. Accounting Rules and Responses to Subsequent Commission Decisions or CAISO Tariff Amendments Should Not Be Required Elements of RA Capacity Product Contracts**

In Category 1 of the essential contract elements, the DD requires RA Capacity product contracts to state that the product being purchased:

retains its Qualifying Capacity value for the compliance year  
irrespective of forced outages or unit performance during the  
compliance year, . . . .<sup>6</sup>

SCE strongly agrees with the DD's policy determination that the Commission should freeze the QC value of an RA Capacity product for the compliance year, irrespective of forced outages or unit performance.<sup>7</sup> However, the extent to which such a product retains its QC value during a compliance year is solely an accounting rule that should be applied by the Commission when

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<sup>5</sup> Since the beginning of 2006, SCE has been leading an industry group effort to develop consensus around a tradable RA Capacity product (or products). This industry group is open to all market participants and has had broad participation to date. This industry group has been incorporating the feature of unbundled Local RAR and System RAR attributes into its draft commercial agreements for an RA Capacity product.

<sup>6</sup> DD at 29 (Category 1, Item #4c).

<sup>7</sup> *Id.*, at 9 ("LSEs will rely upon this [July 1] QC list for their year-ahead and month-ahead RAR compliance filings for and throughout the applicable compliance year").

assessing RA program compliance. It should not become a mandatory element of bilateral contracting for RA Capacity products. Neither the buyer nor the seller of any RA Capacity product can guarantee the future QC for a particular generating unit. Accordingly, the DD should be modified to remove item #4c from the list of essential contract elements appearing in Category 1.

The DD further states that parties transacting RA Capacity products agree to negotiate in good faith to make necessary amendments to “maintain the benefits of the bargain struck by the parties,” in light of any subsequent Commission decisions, revisions to the RA program, or changes in CAISO tariffs.<sup>8</sup> While retaining the original benefits of a negotiated agreement may be a desirable contracting element for some parties, it does not ensure compliance with the RA program. Whether or not the original “benefits” of a particular contract remain in place when RA program requirements are modified is not directly linked to whether an LSE is able to satisfy its RA obligations or whether a generator will make its RA capacity available to the CAISO. Thus, it should be left to bilateral negotiations to determine whether a benefit of the bargain retention provision is included in a particular contract.

### **3. RA Capacity Products Should Not Be Subject to a Minimum Size Requirement**

The DD sets, without any discussion or supporting reasoning, a minimum size requirement of 1 MW for tradable RA Capacity products: “An RA Capacity product is denominated in any size, with the minimum of one megawatt increments . . . .”<sup>9</sup> Importantly, there is nothing in the Tradable Capacity Product Workshop Report or elsewhere in the record in this proceeding regarding tradable RA Capacity products that supports a 1 MW minimum unit requirement. The DD should not arbitrarily set such a requirement, which would have significant adverse consequences for the RA program. SCE estimates that a 1 MW minimum unit requirement (when combined with the prohibition on LSEs claiming more RA credit than the QC of an individual unit, discussed in Part A.4 below) would disallow at least 150 MW from the RA program (based on the CAISO QC list for July-December 2006). This disallowance

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<sup>8</sup> *Id.*, at 29 (Category 1, Item #7).

<sup>9</sup> *Id.*, at 28 (Category 1, Item #2), *see also id.*, at 32 (Category 4, Item #3a) (allowing subdivision of RA Capacity products, provided “the quantity of any resulting RA Capacity product is not less than one megawatt”).

would disproportionately impact the QC of smaller qualifying facilities (“QFs”) and renewable generating units. Moreover, the 1 MW minimum unit requirement is inconsistent with the CAISO’s process for defining QC. The CAISO process, which should be the basis for the Commission’s RA compliance requirements, defines QC in 0.01 MW increments.<sup>10</sup>

In sum, the size of an RA Capacity product does not need to be, and should not be, pre-defined in 1 MW minimum units. The size of the product to be acquired or sold should be left to the parties to determine in bilateral negotiations, consistent with the requirements of the CAISO grid.

**4. Limiting the QC of an RA Capacity Product to That of an Individual Generating Unit Is In Direct Conflict With the Correct Decision to Allow For The Substitution of System RAR Resources**

Section 3.9 of the DD correctly reaches the conclusion that substitution of System RAR resources should be allowed up to the month-ahead showing.<sup>11</sup> As noted in the DD, the ability to pool a portfolio of assets can help reduce the seller’s counting risks and allow optimization of the generation fleet over different times of the year.<sup>12</sup> However, the DD further proposes, as an essential contract element, the limitation that an RA Capacity product “. . . is always written for a single generating unit . . . .”<sup>13</sup> This proposed contract element directly conflicts with the well-reasoned benefits of permitting resource substitution, by restricting RA Capacity products to only a single unit identification. In order to eliminate this conflict and preserve the appropriate determination that substitution of System RAR resources will be permitted, SCE recommends the following modification to Item #4b within Category 1 of the essential contract elements:

4. An RA Capacity product:

- b. ~~is always written for a single generating unit and~~ the magnitude of the Capacity Product can never be larger than the total qualifying capacity of the generating unit(s) for the month as

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<sup>10</sup> See CAISO Net Qualifying Capacity Listing for the Compliance Months July-December, 2006, located at <http://www.caiso.com/17fe/17fedcca1d840.xls>.

<sup>11</sup> DD at 23.

<sup>12</sup> *Id.*, at 21.

<sup>13</sup> *Id.*, at 28 (Category 1, Item #4b).

enumerated on the qualifying capacity list then being used for compliance purposes, . . . .

**5. Availability Requirements Should Be Linked To The Operative CAISO Tariff Requirements**

In Category 3 of the essential contract elements, the DD proposes a series of specific provisions for RA Capacity product contracts that are intended to ensure that the parties comply with certain CAISO requirements for unit commitment and dispatch, as well as information gathering and reporting.<sup>14</sup> Specifically, these contract provisions relate to (1) applying must-offer requirements to generators both prior to, and following implementation of, CAISO's Market Redesign and Technology Update ("MRTU") (Items #2a-d), (2) availability requirements in the event the must-offer obligation is no longer operative (Item #2e), and (3) an explicit requirement for generating units to comply with applicable CAISO data collection, testing, and reporting requirements (Item #3). While these provisions may be generally consistent with the current CAISO Tariff, the DD's provisions are not necessary or desirable as specific contract elements, particularly given the CAISO Tariff's susceptibility to future modification. A more direct approach to ensuring that generating units comply with the CAISO's requirements for RA resources would be to simply refer to and incorporate the operative CAISO Tariff – which explicitly includes the CAISO's RA program requirements – into the RA Capacity product contracts.<sup>15</sup>

Indeed, Item #1 of Category 3 in the DD already provides a catch-all requirement that RA Capacity product contracts must ensure generator compliance with CAISO Tariff requirements and updates.<sup>16</sup> The Commission can accomplish its goal of requiring generator compliance with CAISO requirements through this catch-all provision, without the added burden of requiring specific contract elements that may become outdated or even directly conflict with future amendments to the CAISO Tariff. SCE therefore recommends that the Commission simplify its incorporation of the CAISO RA requirements by deleting Items #2 and #3 of Category 3 in their entirety, and modifying Item #1 of Category 3 as follows:

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<sup>14</sup> *Id.*, at 30-31 (Category 3, Items # 2-3).

<sup>15</sup> CAISO Conformed Simplified and Reorganized Tariff, accepted by FERC as of March 6, 2006, at Section 40.

<sup>16</sup> DD at 30 ("Generating units underlying RA Capacity products must be subject to all applicable CAISO Tariff requirements . . . .").

1. Generating units underlying RA Capacity products must be subject to all applicable CAISO Tariff requirements, ~~including submitting supply schedules.~~

**C. The Draft Decision’s Treatment of Unit Derates Requires A Corresponding Modification of LSEs’ Required Planning Reserve Margin**

Section 3.2 of the DD states, “[f]or purposes of the RAR program, unit derates would thus be reflected in next year’s QC list.”<sup>17</sup> SCE does not object to the DD’s determination that unit derates should be reflected in the CAISO’s official list of QC for the following compliance year. Indeed, SCE strongly supports the determination that “once the [QC] list is established for a compliance year, LSEs will not be required to engage in additional procurement as a result of any change in the QC for a unit that was used in its compliance filing.”<sup>18</sup> However, the annual derate policy for QC cannot be implemented unless the Commission ensures that a process is implemented for adjusting the planning reserve margin (“PRM”) criteria in order to avoid an unintentional and expensive increase in the effective PRM resulting from the derates.

The effect of a unit derate on the PRM has already been recognized by the Commission. In D.05-10-042, the Commission found that the 15-17% PRM it adopted for the RAR program should be revisited as necessary to account for the increased relationship between a resource’s QC and the CAISO’s capacity rating for that resource. The Commission explained, “the required 15-17% reserve margin should be evaluated and possibly adjusted . . . because if average forced outage rates decline as a result of tying RAR eligibility to performance, then presumably the overall requirement could be reduced.”<sup>19</sup> Similarly, the DD itself implicitly identifies the need to revisit the PRM, by acknowledging that “the reserve margin that [the Commission] adopted in D.04-01-050 encompasses forced outages.”<sup>20</sup>

In order to ensure that California’s ratepayers are not subsidizing a PRM that is higher than what the Commission determines to be reasonable, the DD should allow for Phase 2 workshops on the issue of revising the PRM. Accordingly, the last paragraph of Section 3.2 of the DD should be modified as follows.

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<sup>17</sup> *Id.*, at 12.

<sup>18</sup> *Id.*

<sup>19</sup> D.05-10-042 at 20.

<sup>20</sup> DD at 10.

For purposes of the RAR program, unit derates would thus be reflected in next year's QC list. The Commission, however, recognizes that this may result in a need to revise the current 15-17% planning reserve margin, and allows parties to raise that issue in Phase 2 of this proceeding.

Similarly, Conclusion of Law No. 4 of the DD should be modified to read:

4. For purposes of the RAR program, unit derates during an RAR compliance year should be reflected in the next year's QC list. The Commission recognizes that this may result in a need to revise the current 15-17% planning reserve margin, and allows parties to raise that issue in Phase 2 of this proceeding.

**D. The Draft Decision Should Carry-Over Into Phase 2 The Need To Integrate CAISO's Actions On Proposed Scheduled Outages With LSE's RA Showings**

Section 3.1 of the DD, among other things, describes the proposed treatment of scheduled outages with respect to the QC of a given RA resource.<sup>21</sup> SCE strongly supports the DD's adopted policy that CAISO "changes" to an approved scheduled outage for an RAR resource will not result in an LSE being held responsible for procuring replacement capacity.<sup>22</sup> However, the DD is unclear with respect to which CAISO approval process will be the basis for concluding that a scheduled outage has been "approved," and therefore, that an LSE would be exempt from the replacement procurement obligation if the CAISO were to further "change" the scheduled outage. SCE requests that the DD be modified as described below to allow for workshops in Phase 2 to facilitate certainty on this issue.

After discussing the treatment of scheduled outages in Section 3.1, the DD's list of essential contract elements suggests that all scheduled outage approvals would occur only during an annual CAISO scheduling process:

To the extent that a CAISO-initiated outage scheduling change subsequent to the CAISO approved outage schedule renders a generator unit unqualified to provide RA capacity, then the RA Capacity product retains its original value. CAISO denial of a

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<sup>21</sup> *Id.*, at 10-11.

<sup>22</sup> *Id.*, at 10.

proposed outage during the *annual generator outage scheduling process* does not constitute a change that affects RA capacity.<sup>23</sup>

However, the current process for CAISO outage requests requires scheduling coordinators to submit a rolling 12-month planned outage request *each quarter*. These requests, or parts of these requests, are not always approved by the CAISO within a set timeframe. Instead, the CAISO often flags certain unit outage requests as “pending,” and defers action on the requests – in some instances acting only a matter of weeks or days before the requested outage date. For these reasons, many of the LSE-scheduled outage requests would not be “approved” by the CAISO on an annual basis. This creates greater uncertainty for LSEs’ procurement requirements for both the year-ahead and month-ahead RA compliance showings. In fact, an outage request that was submitted to the CAISO but kept in “pending” status would never be exempt from replacement procurement due to a CAISO denial or movement of the outage, even if the CAISO’s decision occurred the day after an RA compliance filing.

The DD, as currently written, provides no incentive for the CAISO to make timely decisions on outage requests. Insofar as the particulars of the CAISO’s practices were not discussed in Phase 1 workshops, SCE requests that the Commission consider working in Phase 2 with the CAISO and LSEs to create a process for the proper RA program treatment of outage requests, that accounts for both the CAISO’s practices in dealing with outage requests and the LSEs’ need for certainty in regard to their RA showings. SCE thus recommends that the last paragraph of Section 3.1 in the DD be modified to include as its last sentence:

The Commission will schedule workshops in Phase 2 of this proceeding to address the manner in which scheduled outage requests should be reflected in LSEs’ RA compliance filings in light of the CAISO’s procedures for responding to outage requests.

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<sup>23</sup> *Id.*, at 29 (Category 1, Item #5) (emphasis added).

## II.

### **IMPLEMENTATION ISSUES**

#### **A. SCE's Proposal To Apply Loss Factors In Place of the Flat 3-Percent Increase In Load Forecasts Has Substantial Benefits And Should Be Adopted**

SCE recommended in its April 21 Comments on the Advisory Staff Workshop Report that, beginning with the RA compliance showings for 2007, transmission losses be accounted for based on the application of loss factors, with all resources and loads adjusted to a common reference point – the CAISO grid (commonly referred to as “at CAISO”) – rather than continuing to use the flat 3% increase to load forecasts adopted by the Commission for the 2006 RA showing.<sup>24</sup> The DD rejects SCE’s proposal on the basis that the net benefits of the proposal are “unclear,” while the application of loss factors would add administrative complexity to the RAR program.<sup>25</sup> SCE requests that the Commission reconsider this determination and provide parties an opportunity in Phase 2 of this proceeding to further demonstrate the net benefits of applying loss factors to account for transmission losses as part of the RA program.

SCE will not repeat its entire proposal for applying loss factors to transmission losses here, as the proposal is captured in its April 21 Comments. In the April 21 Comments, SCE described how the QC of resources could be appropriately adjusted for RA compliance showings to reflect their adjusted capacity at CAISO. This would involve (1) using the CAISO-developed Generation Meter Multipliers (GMM) for resources connected to the CAISO Transmission Grid, (2) making no adjustment for Scheduling Coordinator (“SC”) to SC trades (such resources are already at CAISO), and (3) applying the loss factors specified in the Wholesale Distribution Access Tariff (“WDAT”) of the applicable Participating Transmission Owner for resources connected at the distribution level and for demand response resources.<sup>26</sup> Application of these loss factors would be a matter of straight-forward multiplication of GMMs or WDAT loss factors to the CAISO-identified QC of specific resources, and should not be viewed as imposing significant administrative complexity.

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<sup>24</sup> SCE Comments on Advisory Staff Workshop Report, April 21, 2006, (“SCE April 21 Comments”) at 19-21.

<sup>25</sup> DD at 37.

<sup>26</sup> SCE April 21 Comments at 20-21.



Moreover, there are substantial benefits to adopting the loss factor approach over the flat 3% load forecast increase. By treating all resources in the same fashion, the 3% increase approach unfairly subsidizes out-of-state resources that actually incur higher losses than those resources closer to an LSE's load. The loss factor approach, on the other hand, provides the right value incentives to the resources that contribute to grid efficiency. For example, under the loss factor approach, LSEs would have a strong incentive to procure capacity from units that provide negative losses because the full QC of such resources would be included in the RA showings, while the QC of resources that are less beneficial to the grid due to their losses would be reduced by the appropriate loss factor. Based on a preliminary review of RA resources in its portfolio, SCE believes that application of the flat 3% increase to its load forecast causes it to lose the ability to count over 270 MW of capacity in its RA showings that would count under the loss factor approach. Because SCE recognizes that these comments are not the appropriate forum to develop the record to fully quantify the benefits of the loss factor approach, it strongly urges the Commission to allow this issue to be further explored via workshops in Phase 2 of this proceeding.

Thus, SCE recommends that the last paragraph of Section 4.3 of the DD be modified as follows:

Resolving this issue requires a balancing of the objectives of administrative simplicity and accuracy in resource counting protocols. Since the net benefits of SCE's proposed approach are unclear, ~~but it is clear that it would add administrative complexity that could be costly for participants as well as the Commission and the CAISO to administer,~~ we choose not to approve this approach at this time. However, this proposal should be revisited in Phase 2 of this proceeding to further examine the extent of the benefits it may provide.

In addition, SCE recommends that Finding of Fact #19, regarding administrative complexity in SCE's proposed approach, be deleted in its entirety.

**III.**

**CONCLUSION**

For all of the foregoing reasons, SCE requests that the DD be modified as set forth above.

Respectfully submitted,

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July 10, 2006

**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON DRAFT DECISION ON REMAINING PHASE 1 ISSUES on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address. First class mail will be used if electronic service cannot be effectuated.

Executed this **10th day of July, 2006**, at Rosemead, California.

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Project Analyst  
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**R.05-12-013**

Monday, July 10, 2006

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